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4 BEFORE THE INSURANCE COMMISSIONER  
5 OF THE STATE OF WASHINGTON  
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7 In the Matter of

No. G02-45

8 THE APPLICATION REGARDING  
9 THE CONVERSION AND  
10 ACQUISITION OF CONTROL OF  
PREMERA BLUE CROSS AND  
ITS AFFILIATES

PRE-FILED DIRECT TESTIMONY  
OF DONALD S. NEMEROV

11 I, Donald S. Nemerov, do hereby declare that the following facts are personally  
12 known to me and, if called upon to do so, I would testify to them.

13 1. I am now, and at all times pertinent herein was, a citizen of the United  
14 States and a resident of the State of Illinois, over the age of eighteen (18) years, and  
15 competent to testify in a court of law.

16 2. I am a Director of PricewaterhouseCoopers LLP (PwC). PwC contracted  
17 with the OIC Staff to assist in the analysis and evaluation of the application submitted  
18 by Premera.

19 3. I have attached to this instrument as Exhibit "S-26" a copy of my current  
20 curriculum vitae that summarizes my credentials and expertise.

21 4. In connection with PwC's obligations under its contract with the OIC  
22 Staff, I participated in preparing several reports pertaining to my areas of expertise  
23 which contain my opinions and conclusions. I have attached to this instrument the  
24 following documents containing my opinions and conclusions:

1           a.     Exhibit "S-27" which is a copy of a final report entitled "Executive  
2 Compensation Review: Competitiveness and Reasonableness of Premera Practices"  
3 dated October 2003 in the preparation of which I participated.

4           b.     Exhibit "S-28" which is a copy of a supplemental report relating to  
5 Premera's proposed stock ownership plan entitled "Executive Compensation Review"  
6 Addendum – Competitiveness and Reasonableness of Premera Form A Exhibit G-10  
7 and Equity Incentive Plan" dated November 2003 in the preparation of which I  
8 participated.

9           c.     Exhibit "S-29" which is a copy of a supplemental report taking into  
10 consideration Premera's revisions to its Form A Statement that were submitted on  
11 February 5, 2004 entitled "Premera's Executive Compensation Review Summary of  
12 Issues – Resolved or Pending: Report Addendum" and dated February 27, 2004. I  
13 participated in the preparation of Exhibit "S-29."

14           5.     Exhibits "S-26," "S-27," "S-28," and "S-29" are incorporated herein as if  
15 set forth verbatim.

16           6.     In addition to the above, I have attached Exhibit "S-37" which is entitled  
17 "Executive Compensation Review: Corrections and Clarifications to Exhibits S-27, S-  
18 28 and S-29." It contains specific corrections and clarifications with respect to the  
19 referenced reports. Exhibit "S-37" is incorporated herein as if set forth verbatim.  
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1 I declare under penalty of perjury under the laws of the State of Washington  
2 that the foregoing is true and correct.

3 Dated March 26, 2004 at Chicago, Illinois.

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5   
6 DONALD S. NEMEROV